

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 33 - HB 46

February 10, 2011

SUMMARY OF BILL: Phases out the Hall Income Tax (HIT) by reducing the tax rate for tax year 2013 from six percent to four percent; reducing the tax rate for tax year 2014 from four percent to two percent; and eliminating the tax for tax year 2015 and thereafter.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue – Net Impact – \$38,413,800/FY13-14
\$76,943,000/FY14-15
\$115,356,800/FY15-16 and Subsequent Years**

Decrease State Expenditures – \$500,000/FY15-16 and Subsequent Years

**Decrease Local Revenue – Net Impact – \$23,601,700/FY13-14
\$47,274,300/FY14-15
\$70,876,000/FY15-16 and Subsequent Years**

Assumptions:

- One-hundred percent of HIT collections for any given tax year are collected between January 1 and June 30 of the following year.
- No fiscal impact to state or local government for FY11-12 or FY12-13 as a result of the phase-out beginning with tax year 2013.
- The current Fiscal Review Committee estimate for HIT collections is \$195,520,000 for FY11-12.
- HIT collections remain constant in subsequent years.
- The rate reduction for tax year 2013 from 6 percent to 4 percent represents a 33.3 percent tax rate reduction.
- The decrease to HIT collections for FY13-14 is estimated to be \$65,108,200 (\$195,520,000 x 33.3%).
- Pursuant to Tenn. Code Ann. § 67-2-119, the state retains 62.5 percent of HIT collections and 37.5 percent is apportioned to local governments.
- The decrease to HIT revenue that would be retained by the state under current law is estimated to be \$40,692,600 (\$65,108,200 x 62.5%) for FY13-14.
- The decrease to HIT revenue that would be apportioned to local governments under current law is estimated to be \$24,415,600 (\$65,108,200 x 37.5%) for FY13-14.

- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- A current state sales tax rate of 7.0 percent and an average 2.5 percent local option sales tax rate.
- The increase to state sales tax revenue for FY13-14 is estimated to be \$2,278,800 ($\$65,108,200 \times 50.0\% \times 7.0\%$).
- The net decrease to state revenue for FY13-14 is estimated to be \$38,413,800 ($\$40,692,600 - \$2,278,800$).
- The increase to local option sales tax revenue for FY13-14 is estimated to be \$813,900 ($\$65,108,200 \times 50.0\% \times 2.5\%$).
- The net decrease to local government revenue for FY13-14 is estimated to be \$23,601,700 ($\$24,415,600 - \$813,900$).
- The HIT rate reduction for tax year 2014 from four percent to two percent represents a cumulative 66.7 percent rate reduction relative to the current rate of six percent.
- The decrease to HIT collections for FY14-15 is estimated to be \$130,411,800 ($\$195,520,000 \times 66.7\%$).
- The decrease to HIT revenue that would be retained by the state under current law is estimated to be \$81,507,400 ($\$130,411,800 \times 62.5\%$) for FY14-15.
- The decrease to HIT revenue that would be apportioned to local governments under current law is estimated to be \$48,904,400 ($\$130,411,800 \times 37.5\%$) for FY14-15.
- The increase to state sales tax revenue for FY14-15 is estimated to be \$4,564,400 ($\$130,411,800 \times 50.0\% \times 7.0\%$).
- The net decrease to state revenue for FY14-15 is estimated to be \$76,943,000 ($\$81,507,400 - \$4,564,400$).
- The increase to local option sales tax revenue for FY14-15 is estimated to be \$1,630,100 ($\$130,411,800 \times 50.0\% \times 2.5\%$).
- The net decrease to local government revenue for FY14-15 is estimated to be \$47,274,300 ($\$48,904,400 - \$1,630,100$).
- The HIT is eliminated beginning with tax year 2015.
- The recurring decrease to HIT collections is estimated to be \$195,520,000 for FY15-16 and subsequent years.
- The recurring decrease to HIT revenue that would be retained by the state under current law is estimated to be \$122,200,000 ($\$195,520,000 \times 62.5\%$) for FY15-16 and subsequent years.
- The recurring decrease to HIT revenue that would be apportioned to local governments under current law is estimated to be \$73,320,000 ($\$195,520,000 \times 37.5\%$) for FY15-16 and subsequent years.
- The recurring increase to state sales tax revenue for FY15-16 and subsequent years is estimated to be \$6,843,200 ($\$195,520,000 \times 50.0\% \times 7.0\%$).
- The net recurring decrease to state revenue for FY15-16 and subsequent years is estimated to be \$115,356,800 ($\$122,200,000 - \$6,843,200$).
- The recurring increase to local option sales tax revenue for FY15-16 is estimated to be \$2,444,000 ($\$195,520,000 \times 50.0\% \times 2.5\%$).
- The net recurring decrease to local government revenue for FY15-16 is estimated to be \$70,876,000 ($\$73,320,000 - \$2,444,000$).

- Based on information provided by the Department of Revenue, departmental expenditures are expected to decrease by \$500,000 per year as a result of no longer being required to administer the HIT. This recurring decrease to state expenditures is not expected to occur until FY15-16, when the HIT is completely phased out.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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